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Lead Counsel for Lead Plaintiff

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION

In re YOGAWORKS, INC.
SECURITIES LITIGATION

) Master File No. 2:18-cv-10696-CJC-SK
) (Consolidated with 2:19-cv-00970-CJC-
) SK)

This Document Relates To:

) CLASS ACTION

ALL ACTIONS.

) CONSOLIDATED CLASS ACTION
) COMPLAINT FOR VIOLATION OF
) THE FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

1 Lead Plaintiff Inter-Local Pension Fund GCC/IBT (“Lead Plaintiff”),
2 individually and on behalf of all other persons similarly situated, by his undersigned
3 attorneys, alleges in this Complaint the following upon knowledge with respect to
4 Lead Plaintiff and Lead Plaintiff’s own acts, and upon facts obtained through an
5 investigation conducted by Lead Plaintiff’s counsel, which included, among other
6 things: review and analysis of, relevant filings made by YogaWorks, Inc.
7 (“YogaWorks” or the “Company”) with the United States Securities and Exchange
8 Commission (the “SEC”), Company releases, conference calls, public statements
9 issued by defendants, media reports, analyst reports, industry reports and consultation
10 with persons familiar with Yogawork’s business. Lead Plaintiff believes substantial
11 additional evidentiary support will likely exist for the allegations set forth herein after
12 a reasonable opportunity for discovery.

13 **NATURE OF THE ACTION & OVERVIEW**

14 1. This is a federal securities class action on behalf of all persons and
15 entities, other than defendants, who purchased YogaWorks common stock pursuant
16 and/or traceable to the Company’s initial public offering that commenced on or about
17 August 10, 2017 and closed on August 16, 2017 (the “IPO”), seeking to recover
18 compensable damages caused by defendants’ violations of the Securities Act of 1933
19 (the “1933 Act”) (the “Class”).

20 2. YogaWorks started as a single yoga studio in Santa Monica in 1987. As
21 of July 2014, when it was acquired by private equity firm Great Hill Partners (defined
22 herein), YogaWorks had 29 studios. Great Hill Partners nearly doubled the number of
23 studios in just three years, and took the Company public in an attempt to exit its
24 investment. During that period of time, Great Hill Partners replaced the YogaWorks
25 C-Suite, established the Board of Directors with its employees, CEO and two
26 “independent” directors, and implemented extensive cost-cutting measures that
27 reduced pay and eliminated positions across the organization. Studio and regional
28 managers had to make choices between quality staffing and management and keeping

1 studios clean. Class quality and customer experience declined as a result of disruption
2 and other changes from the aggressive cost-cutting, and so too did visits to many of
3 the studios. The business and financial metrics suffered as a result.

4 3. YogaWorks started selling class packages, which cost more than monthly
5 memberships, to increase cash flow in advance of the IPO in an attempt to build a
6 pipeline of studio acquisitions. The studios acquired were not the profitable studios
7 YogaWorks added before being acquired by Great Hill Partners. Financial metrics
8 continued to decline. Within a year of the IPO, the Company was privately suffering
9 from sequential and year-over-year declining measures of revenue, profitability and
10 studio visits.

11 4. YogaWorks filed its draft registration statement on Form S-1 with the
12 SEC on April 18, 2017. With its second quarter results in the books, on July 17, 2017,
13 defendant Chang, on behalf of YogaWorks and defendants Cowen, Stephens and
14 Guggenheim, on behalf of the Underwriter Defendants (defined herein), wrote
15 separately to the SEC to request that YogaWorks' Registration Statement be
16 accelerated and declared effective as of July 19, 2017. Unsuccessful in that request
17 the IPO commenced the next month, half-way into the Company's third quarter. The
18 IPO pitch was that YogaWorks had recently grown through a successful acquisition
19 strategy. The Company was supposedly successful because it had strong "studio-level
20 economics" combined with studio acquisitions that return invested capital in two to
21 four years, and an infrastructure that could be leveraged so that as the studio base was
22 growing, expenses for corporate and regional overhead were becoming a smaller
23 percentage of net revenues and profitability. The IPO was priced at \$5.50 per share.
24 7.3 million shares sold.

25 5. The Registration Statement and Prospectus (defined herein) contained
26 material misstatements and misleading statements that suffered from the omission of
27 significant information. The Company's business model was not working. And
28 omitted facts concerning then-current losses and sequential and year-over-year

quarterly financial and operational metrics related to (1) studio-level profitability; (2) the reasons for declining revenue; and (3) corporate infrastructure costs and economies of scale - tended to demonstrate that.

6. Investors initially accepted the Company's excuse for providing only limited current financial information, namely "[o]ur financial statements for the quarter ended June 30, 2017 are not yet available" But that was a misstatement. The Company's financial statements for the second quarter were in fact available and the Company was aware of them. Investors also initially accepted the proposition that revenues were temporarily flat because of a shift in sales mix that would be beneficial long term. That was a misstatement too. The sales mix shift was to "grab" cash and declining customer experience and class quality was negatively impacting revenues. The omitted information was important. Among other things showing that is investor response as information was revealed beginning shortly after the IPO.

YOGA Closing Stock Price From IPO to Complaint Filing, 12/27/18



1 7. In YogaWorks’ maiden quarter, half-way complete as of the IPO, the
2 adverse trend continued. As the risks omitted further materialized, the Company
3 began spiraling towards a liquidity crisis. Within months investors lost 50% of their
4 investment and YogaWorks was described as possibly the worst IPO of the year. The
5 Company’s liquidity was questioned. A year after the IPO, as YogaWorks became a
6 “penny stock,” even analysts employed by the Underwriter Defendants downgraded
7 the Company and took back their astronomical price targets. As one independent
8 analyst wrote:

9 [T]here’s only \$15.5 million of cash remaining to support YogaWorks’
10 spending spree. If YogaWorks’ current cash burn run rate holds, it has
11 barely over a year left of operations before it has to raise additional
12 capital. With shares trading near pink-sheet territory, raising equity
13 capital seems to be out of the question. On the credit side, only the
14 riskiest of venture-debt lenders would want to lend to an unprofitable
15 company like this - and even if YogaWorks were able to pull that off, it
16 would come at a crippling interest rate. . . . In my view, this company is
17 headed into the ground.

18 That was nine months ago. Shortly afterwards, the National Association of Securities
19 Dealers Automated Quotations (“NASDAQ”) threatened delisting.

20 8. As of this filing, YogaWorks had just filed its Report on Form 10-Q for
21 the quarter ended March 31, 2019, which revealed the Company has \$6 million of
22 cash remaining and has a burn rate of \$4.6 million a quarter, as confirmed by the CEO
23 on the “earnings” conference call. The Report on Form 10-Q states: “we had
24 negative working capital of \$4.0 and \$0.6 million at March 31, 2019 and December
25 31, 2018, respectively . . . the Company needs additional financing to fund its
26 operations. These conditions raise substantial doubt about our ability to continue as a
27 going concern.”

JURISDICTION AND VENUE

9. The claims asserted herein arise under and pursuant to §§11, 12(a)(2), and 15 of the 1933 Act (15 U.S.C. §§77k, 77l, and 77o).

10. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331, §22 of the 1933 Act (15 U.S.C. §77v).

11. Venue is proper in this Judicial District pursuant to 28 U.S.C. §1391(b) as the alleged misleading public filings and press releases entered this district and the Company's headquarters are located in this district.

12. Defendants' wrongful acts also arose in, were directed in and emanated from, in part, this District, including (but not limited to) the direction of processes leading to execution of the IPO, dissemination of materially misleading statements into this District, the purchase of the Company's common stock by members of the Class (defined herein) who reside in this District and the sale of the Company's common stock in this District by certain of the Underwriter Defendants (defined herein).

13. In connection with the acts, conduct and other wrongs alleged herein, defendants either directly or indirectly used the means and instrumentalities of interstate commerce, including but not limited to the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

14. Lead Plaintiff Inter-Local Pension Fund GCC/IBT, as described in the certification previously submitted to the Court, and incorporated herein, purchased YogaWorks common stock pursuant to the Registration Statement and Prospectus ("Registration Statement") in the Company's IPO and was damaged thereby. Lead Plaintiff purchased those shares from defendant Stephens Inc., in response to being invited to indicate interest in the IPO by representatives of Stephens Inc., at the behest of YogaWorks.

1 15. YogaWorks is a Delaware corporation with principal executive offices
2 located at 5780 Uplander Way, Culver City, California 90230. YogaWorks common
3 stock trade on NASDAQ under the ticker symbol “YOGA.” YogaWorks is subject to
4 liability as an issuer, seller and control person, and all the statements and solicitation
5 herein made by YogaWorks’ officers were on behalf of YogaWorks. YogaWorks
6 designated numerous personnel in the working group for the IPO, including its CEO
7 and CFO, both of whom not only reviewed and approved the offering documents, but
8 also participated in the preparation of road show presentations according to a power
9 point and talking points/script that was reviewed and approved by them. YogaWorks’
10 representatives at the road show pitched investors in the IPO in related meetings, calls
11 and webcasts.

12 16. Defendant Rosanna McCollough (“McCollough”) is the Company’s
13 President, Chief Executive Officer (“CEO”), and member of the Board of Directors
14 (the “Board”) and held these positions at the time of the IPO. As the top YogaWorks
15 executive in the IPO working group, McCollough reviewed and approved, and
16 participated in making statements in the Registration Statement. She also reviewed,
17 edited and approved the IPO’s road show power point presentation and road show
18 talking points and script, and she participated in making the false and misleading
19 statements alleged herein at the road show as YogaWorks’ CEO. McCollough was
20 motivated by the financial implications of an IPO for YogaWorks and its controlling
21 shareholder Great Hill Partners, as well as for herself. By the IPO, Great Hill Partners
22 obtained liquidity for its investment in the Company and was repaid approximately
23 \$3.3 million in connection with Great Hill Partners convertible notes under which the
24 Company was indebted. McCollough owned over 250,000 shares of common stock in
25 the Company, including shares directly held as well as shares issuable upon the
26 exercise of options exercisable as of the IPO or less than 60 days after the IPO. She
27 also was granted over 196,000 shares of common stock in connection with the IPO at
28

1 a price of \$0.00 per share pursuant to restricted stock units, over 50% of which were
2 vested as of the IPO.

3 17. Defendant Vance Chang (“Chang”) is YogaWorks’ Chief Financial
4 Officer (“CFO”) and held this position at the time of the IPO. As the number two
5 YogaWorks executive in the IPO working group, Chang reviewed and approved, and
6 participated in making statements in the Registration Statement. He also reviewed,
7 edited and approved the IPO’s road show power point presentation and road show
8 talking points and script, and he participated in making the false and misleading
9 statements alleged herein at the road show as YogaWorks’ CFO. Chang was
10 motivated by the financial implications of an IPO for YogaWorks and its controlling
11 shareholder Great Hill Partners, as well as for himself. Chang owned over 205,000
12 shares of common stock in the Company, including shares directly held as well as
13 over 72,000 shares issuable upon the exercise of options exercisable as of the IPO or
14 less than 60 days after the IPO. He also was granted over 108,000 shares of common
15 stock in connection with the IPO at a price of \$0.00 per share pursuant to restricted
16 stock units, over 25% of which were vested as of the IPO.

17 18. Defendant Peter L. Garran (“Garran”) serves at the Chairman of the
18 Board of YogaWorks, he held this position at the time of the IPO and was also
19 appointed to the Company’s Audit Committee following the IPO. Defendant Garran
20 was caused to be elected to the Board by Great Hill Partners to serve at the favor of
21 the Great Hill Partners entities, identified in ¶24 below, and he did and does so as a
22 Partner at Great Hill Partners, L.P. Acting in part on behalf of those entities, Garran
23 also approved McCollough’s compensation as well as Chang’s compensation
24 (including the compensation of each executive officer of the Company), and
25 performed the critical processes leading to execution of the IPO.

26 19. Defendant Michael A. Kumin (“Kumin”) serves as a Director of the
27 Board and was a Director at the time of YogaWorks’ IPO. Defendant Kumin was
28 caused to be elected to the Board by Great Hill Partners to serve at the favor of the

Great Hill Partners entities, identified in ¶24 below, and he did and does so as Managing Partner at Great Hill Partners, L.P., manager of GHP V, LLC, and manager of Great Hill Investors, LLC. GHP V, LLC is the sole general partner of the sole general partner of Great Hill Equity Partners V, L.P., which held 99.9% of the Company's stock as of the IPO, and which Kumin beneficially owned. Acting in part on behalf of those Great Hill and GHP entities, Kumin also approved McCollough's compensation as well as Chang's compensation (including the compensation of each executive officer of the Company) and performed the critical processes leading to execution of the IPO.

20. Defendant Michael J. Gerend ("Gerend") serves as a Director of the Board, was a Director at the time of YogaWorks' IPO and was appointed Chairman of the Compensation Committee and a member of the Audit Committee following the IPO. Defendant Gerend was caused to be elected to the Board by Great Hill Partners.

21. Defendant Brian T. Cooper ("Cooper") serves as a Director of the Board, was a Director at the time of YogaWorks' IPO and was appointed Chairman of the Audit Committee and a member of the Compensation Committee following the IPO. Defendant Gerend was caused to be elected to the Board by Great Hill Partners.

22. The defendants identified in ¶¶16-21 above signed the false and misleading Registration Statement used to conduct the IPO and are referred to herein as the "Individual Defendants." The defendants referenced above in ¶¶16-17 are key members of the IPO working group and executives of YogaWorks who pitched investors in the road show to sell the IPO at the behest of the Company and the Underwriter Defendants, and are sometimes referred to herein as the "Executive Defendants." Defendant Yogaworks and the Individual Defendants are strictly liable for the false and misleading statements in the Registration Statement.

UNDERWRITER DEFENDANTS

23. Defendants Cowen and Company, LLC ("Cowen"), Roth Capital Partners, LLC ("Roth"), Stephens Inc. ("Stephens"), Guggenheim Securities, LLC

1 (“Guggenheim”), and Imperial Capital, LLC (“Imperial”) (collectively referred to as
2 the “Underwriter Defendants”) served as underwriters for the IPO, sold 7.3 million
3 shares of YogaWorks common stock in the IPO and collectively received over \$2.8
4 million in fees and commissions for soliciting and selling the shares in the IPO.
5 Pursuant to the 1933 Act, the Underwriter Defendants are liable for the false and
6 misleading statements in the Registration Statement as follows:

7 (a) The Underwriter Defendants are investment banking houses which
8 specialize, inter alia, in underwriting IPOs of securities. They served as the
9 underwriters of the IPO and shared more than \$2.8 million in fees collectively. The
10 Underwriter Defendants determined that in return for their share of the IPO proceeds,
11 they were willing to merchandize YogaWorks stock in the IPO, and as stated in the
12 Registration Statement they “propose[d] to offer the shares of common stock to the
13 public as the public offering price set forth on the cover of [the] prospectus,” \$5.50
14 per share. In the bakeoff that determined the composition of the underwriting
15 syndicate, the Underwriter Defendants extolled their ability to market YogaWorks
16 common stock. Each of the Underwriter Defendants designated personnel to the IPO
17 working group, including investment bankers, analysts, associates and counsel, to
18 market the Company’s stock, and those personnel worked on and approved the
19 content of YogaWorks’ Registration Statement and road show presentation. The
20 Underwriter Defendants arranged a multi-city road show prior to the IPO during
21 which they, and the Executive Defendants, met with potential investors and presented
22 highly favorable information about the Company, its operations and its financial
23 prospects. The Underwriter Defendants also promoted YogaWorks’ IPO to their
24 bank’s own clients and sold shares to those clients and brokerage account holders.

25 (b) The Underwriter Defendants also demanded and obtained an
26 agreement from the Company that YogaWorks would indemnify and hold the
27 Underwriter Defendants harmless from any liability under the federal securities laws.

28

1 They also made certain that YogaWorks had purchased millions of dollars in
2 directors' and officers' liability insurance.

3 (c) Representatives of the Underwriter Defendants also assisted
4 YogaWorks and the Individual Defendants in planning the IPO, and purportedly
5 conducted an adequate and reasonable investigation into the business and operations
6 of YogaWorks, an undertaking known as a "due diligence" investigation. The due
7 diligence investigation was required of the Underwriter Defendants in order to engage
8 in the IPO. During the course of their "due diligence," the Underwriter Defendants
9 had continual access to confidential corporate information concerning YogaWorks'
10 operations and financial prospects.

11 (d) In addition to availing themselves of virtually unbridled access to
12 internal corporate documents, agents of the Underwriter Defendants met with
13 YogaWorks' management, top executives and outside counsel and engaged in
14 "drafting sessions" in advance of the IPO. During these sessions, understandings were
15 reached as to: (i) the strategy to best accomplish the IPO; (ii) the terms of the IPO,
16 including the price range at which YogaWorks stock would be sold; (iii) the language
17 to be used in the Registration Statement; (iv) what disclosures about YogaWorks
18 would be made in the Registration Statement; and (v) what responses would be made
19 to the SEC in connection with its review of the Registration Statement. As a result of
20 those constant contacts and communications between the Underwriter Defendants'
21 representatives and YogaWorks' management and top executives, the Underwriter
22 Defendants knew, or should have known, of YogaWorks' existing problems as
23 detailed herein.

24 (e) The Underwriter Defendants caused the Registration Statement to
25 be filed with the SEC and declared effective in connection with the offers and sales of
26 securities registered thereby, including those to Lead Plaintiff and the other members
27 of the Class.

28

CONTROL DEFENDANTS GREAT HILL PARTNERS

24. Defendant Great Hill Partners, L.P., through its subsidiaries and/or affiliated companies, including defendant GHP V, LLC, defendant Great Hill Equity Partners V, L.P. (collectively, “Great Hill Partners”) and Great Hill Investors, LLC, acquired YogaWorks in July 2014. Great Hill Partners (and each of the entities defined therein) controlled YogaWorks and certain of the Company’s directors. GHP V, LLC is the sole general partner of the sole general partner of Great Hill Equity Partners V, L.P., which held 99.9% of the Company’s stock as of the IPO and 71.5% of the outstanding shares of YogaWorks as of August 28, 2018.

25. Once Great Hill Partners acquired the Company, it wielded significant influence over the management and operations of the Company. Great Hill Partners replaced the CEO, CFO, and Chief Operating Officer (“COO”), eliminated and replaced a number of management positions, and instituted an aggressive cost-cutting program that eliminated or backfilled management, staff and teaching positions across the organization. The IPO was understood at the outset to provide Great Hill Partners its investment exit by providing liquidity and payment to Great Hill Partners. The officers and directors that Great Hill Partners put on the board understood that. Great Hill Partners was recognized within the Company as being responsible for replacing monthly dues with class packages and changing the structure of studio management. In addition to this, Great Hill Partners caused the Company to enter an agreement whereby Great Hill Partners would provide general management, consulting and advisory services to the Company. The agreement included payment for those services, including but not limited to Great Hill Partners services related to attending and participating at board meetings, advising on studio acquisitions, developing and supervising the Company’s capital structure and strategies for increasing financial performance. Indeed, Great Hill Partners was recognized within the Company as being responsible in part for decreasing studio quality, class attendance and quality, as well as studio profitability.

1 26. As stated in the Registration Statement, Great Hill Partners “will be able
2 to exercise a controlling influence over matters requiring stockholder approval,
3 including the election of directors and approval of significant corporate transactions,
4 and have significant influence over [YogaWorks’] management and policies for the
5 foreseeable future.” The influence over the management and operations of the
6 Company by Great Hill Partners was (and continues to be) so great that the
7 Company’s directors and top officers that Great Hill Partners controls and influences,
8 under the Company’s certificate of incorporation, may pursue opportunities directly in
9 conflict with the Company. As stated in the Registration Statement:

10 Our certificate of incorporation will provide for the allocation of
11 corporate opportunities between us and Great Hill Partners. Under these
12 provisions, neither Great Hill Partners, its portfolio companies, funds or
13 other affiliates, nor any of their officers, directors, agents, stockholders,
14 members or partners will have any duty to refrain from engaging,
15 directly or indirectly, in the same business activities, similar business
16 activities or lines of business in which we operate. . . . [S]uch . . .
17 opportunities may not be available to us.

18 27. Great Hill Partners has executive offices in Boston, Massachusetts. Great
19 Hill Partners, through Kumin and Garran, as well as McCollough and Chang (over
20 whom Great Hill Partners wielded considerable influence), and Great Hill Partners
21 employees, directed and participated in the steps critical to effecting the IPO by
22 traveling to California to participate in board, board committee and management
23 activities, or by directing substantial communications into California for the purpose
24 of controlling the Company and executing the IPO. These activities included, but
25 were not limited to, review, approval, signing or authorization of the signing of the
26 Registration Statement, voting (including voting their shares) to execute the IPO, and
27 by having otherwise directed through the Great Hill Partners’ authority processes
28 leading to execution of the IPO, including retaining the Underwriter Defendants,

1 registration, qualification, authorization, pricing, offering to the public and issuance
2 and sale of the shares in the IPO.

3 28. YogaWorks, the Individual Defendants, the Underwriter Defendants and
4 Great Hill Partners are collectively referred to herein as, “defendants.”

5 **SUBSTANTIVE ALLEGATIONS**

6 ***Background***

7 29. Founded in 1987, YogaWorks was a single yoga studio in Santa Monica,
8 California. Between 1996 and 2014, YogaWorks grew to 29 studios. In July 2014,
9 Great Hill Partners acquired YogaWorks for \$45.6 million in cash and added through
10 its management and control, approximately 23 studios. Great Hill Partners currently
11 owns approximately 70% of YogaWorks’ outstanding common stock.

12 30. YogaWorks claims that it is “one of the largest and fastest growing
13 providers of high quality yoga instruction in the U.S.” and “the only national, multi-
14 discipline yoga instruction company.”

15 31. YogaWorks generates most of its revenue from offering a variety of yoga
16 classes at its studios. The in-studio classes offer yoga instruction for all skill levels in
17 various yoga styles. The prices for classes vary by location and region, but on average
18 students pay \$90-\$145 per month for an unlimited membership. YogaWorks offers
19 six-month and annual prepaid memberships, as well as class packages in increments
20 of 10 to 20 classes.

21 32. YogaWorks also derives revenue from teacher training programs and
22 online subscriptions of MyYogaWorks.com. The teacher training program began in
23 1990 and has graduated approximately 11,000 students. These graduates are
24 considered “ambassadors of the YogaWorks brand.” YogaWorks offers a 200-hour
25 and a 300-hour training program, taught in 16 countries at YogaWorks studios as well
26 as non-YogaWorks studios. Tuition for the 200-hour program is approximately
27 \$3,500 and for the 300-hour program is approximately \$4,200. MyYogaWorks.com
28 provides online subscriptions for access to YogaWorks’ on-demand video library of

1 over 1,100 classes. In 2017, MyYogaWorks.com streamed approximately 700,000
2 classes to over 25,000 users. YogaWorks charges \$15 per month for the subscription
3 which is reduced to \$5 per month for those with YogaWorks studio memberships.

4 33. Profitable studio acquisitions are vital to YogaWorks' growth and
5 financial viability, as since its inception, this was YogaWorks' focus.

6 34. At the time of the IPO, YogaWorks owned 50 studios in California, New
7 York City, Boston and the Baltimore/Washington, D.C. area.

8 35. YogaWorks' growth is driven mainly through acquisition of yoga studios
9 in highly fragmented markets. The Registration Statement stated, "[t]hrough
10 acquisitions, we believe we can quickly gain students, grow our market share and
11 build on the operating momentum of these acquired businesses."

12 36. YogaWorks' acquisition strategy is driven by its purported belief that
13 acquisitions of existing studios that already have a student base is an "effective,
14 profitable and risk-mitigating way to enter a new regional market" rather than building
15 new studios and waiting for attendance to ramp up.

16 37. On June 23, 2017, YogaWorks filed a registration statement on Form S-
17 1 for a proposed initial public offering. The June 23, 2017 registration statement was
18 followed by several amendments, the last of which was filed on August 10, 2017
19 which became effective that day. On August 11, 2017, YogaWorks filed a Prospectus
20 pursuant to 17 C.F.R. 230.424(b)(4), which is incorporated into the Registration
21 Statement (the "Prospectus"), with the SEC. On August 16, 2017, YogaWorks
22 completed its IPO in which it offered 7.3 million shares at \$5.50 per share.

23 38. The Registration Statement stated the intended use of the IPO proceeds
24 was for capitalization and financial flexibility, repayment of a \$3.3 million note to
25 Great Hill Partners, and a \$7 million loan to Deerpath Funding LP, funding an
26 acquisition and for working capital and other general corporate purposes. The IPO
27 reaped net proceeds of \$35 million.

28

1 39. The Registration Statement was negligently prepared and, as a result,
2 contained untrue statements of material facts or omitted to state other facts necessary
3 to make the statements made not misleading. Furthermore, it was not prepared in
4 accordance with the rules and regulations governing its preparation.

5 **DEFENDANTS' DISCLOSURE OBLIGATIONS**

6 40. In their capacities as signers of the Offering Materials and/or an issuer,
7 statutory seller, offeror, control persons and/or underwriter of the shares sold pursuant
8 to the Registration Statement, each of the defendants are strictly liable for the
9 misstatements and omissions alleged herein pursuant to §§11, 12(a)(2) and 15 of the
10 1933 Act.

11 41. Due to the materially deficient Offering Materials, defendants have also
12 violated their independent, affirmative duty to provide adequate disclosures about
13 adverse conditions, risk and uncertainties. Item 303 of SEC Registration S-K, 17
14 C.F.R. §229.303(a)(3)(ii), requires that the materials incorporated in a registration
15 statement disclose all “known trends or uncertainties” reasonably expected to have a
16 material unfavorable impact on the Company’s operations.

17 42. Defendants further violated their independent, affirmative duty to
18 adequately “provide under the caption ‘Risk Factors’ a discussion of the most
19 significant factors that make the offering speculative or risky.” In contravention to
20 Item 503 of SEC Registration S-K, 17 C.F.R. §229.503(c), defendants failed to
21 disclose several risks that have already materialized at the time of the IPO that were
22 unknown to Plaintiff and other YogaWorks investors.

23 **MATERIAL MISSTATEMENTS, MISLEADING STATEMENTS AND** 24 **OMISSIONS IN THE REGISTRATION STATEMENT**

25 *Context*

26 43. The first section of the Prospectus, pages 1-12 (the “Prospectus
27 Summary”), attached hereto as Ex. 1, presented YogaWorks as a successful, growing
28 business with unique strengths. Statements included: “We are one of the largest and

1 fastest growing providers of high quality yoga instruction in the U.S., with almost 3
 2 million student visits in 2016 and 50 company-owned studios as well as our Internet-
 3 based digital media service, MyYogaWorks.com.” It highlighted: “**Strong Financial**
 4 **Performance.**”

5 Our significant growth is reflected in:

- 6 • 49 studios at December 31, 2016 reflecting a compound annual
 7 growth rate, or CAGR of 19.5%, from 24 studios at December 31,
 8 2012 (primarily related to our acquisition of 17 studios in 2015);
- 9 • 2.9 million visits in 2016, reflecting a CAGR of 13.6%, from 1.8
 10 million visits in 2012; and
- 11 • Net revenues of \$55.1 million in 2016, reflecting a CAGR of
 12 10.9%, from \$36.4 million in 2012.

13 44. The Prospectus Summary positively described “**Our Market**
 14 **Opportunity,**” with such statements as:

15 Yoga awareness among Americans has increased from 75% in 2012 to
 16 90% in 2016, according to the 2016 Yoga in America Study. According
 17 to the same study, in 2016, yoga practitioners spent over \$16 billion on
 18 instruction, apparel, equipment and yoga accessories; over one-third of
 19 that figure, or approximately \$5.8 billion, was spent on instruction in
 20 2016. At \$16 billion in 2016, spend on yoga has increased by \$6 billion
 21 since 2012.

22 In the “**Student Profile,**” it stated: “Yoga is practiced by a number of desirable
 23 consumer demographics and YogaWorks is well positioned to reach a broad
 24 population due to our inclusive, multi-discipline and broad program offerings.”

25 45. The Prospectus Summary also included “**What Sets Yogaworks Apart,**”
 26 highlighting a “*High Quality Yoga Experience,*” the “*Gold Standard of Yoga*
 27 *Teacher Training,*” and “*Strong Studio-Level Economics.*” YogaWorks was
 28

described as the “*Acquirer of Choice with a History of Successful Acquisitions*,” and a “*Proven and Experienced Senior Management Team*.”

46. The Prospectus Summary promoted YogaWorks’ “**Growth Strategy**,” with such statements as: “We believe we are ideally positioned to consolidate the highly fragmented yoga studio market.” It also stated:

Over the past 14 years, we have successfully integrated numerous acquisitions. . . . Through future acquisitions, we can leverage our corporate infrastructure to grow our brand in both new and existing markets by quickly tapping into the thriving yoga communities that already exist in nearly every city in the U.S.

As part of YogaWorks’ growth strategy, the Prospectus Summary highlighted the Company was “*Driv[ing] Increased Visits, Net Revenues and Regional Market Share*,” and that the Company benefitted from being able to “*Leverage our Infrastructure*,” and “*Pursue Brand Extension Opportunities*.”

47. The Prospectus Summary included multiple graphics, most of which depicted arrows with upward trajectories describing the Company’s financial and operational performance. *See* Ex.1 at 3-4.

48. Elsewhere in the Registration Statement, the information in the Prospectus Summary was repeated in a description of the Company’s “**Business**,” with similar and additional graphics and highlighted presentations. *See* Ex.2 at 75-87. Within the context above and throughout, the Registration Statement suffered from material misstatements, misleading statements and omitted material facts.

Material Misstatements, Misleading Statements and Omitted Material Facts

49. In the Prospectus Summary, the Registration Statement highlighted “**Recent Developments**” that included “*Preliminary Second Quarter Results*.” It stated: “Our financial statements for the quarter ended June 30, 2017 are not yet available” That was a misstatement. The Company’s financial statements for the second quarter were in fact available and the Company was aware of them.

1 50. Thereafter, the Prospectus Summary presented “the following estimated
2 results for the quarter ended June 20, 2017: Net revenues of between \$12.3 million
3 and \$12.6 million; and Visits of between 700,000 and 720,000.” It also purported to
4 explain that:

5 The decrease in net revenues from \$13.3 million for the quarter
6 ended June 30, 2016 was primarily due to a larger portion of our sales
7 for the quarter ended June 30, 2017 being recognized as deferred
8 revenue. . . . This sales mix shift resulted in less revenue being
9 recognized during the second quarter of 2017 than the same quarter in
10 2016, in which we had a higher percentage of monthly membership
11 revenue.

12 It also stated: “Our decision to offer class packages at all of our studios also impacted
13 our number of visits, as students on class packages tend to visit studios less than
14 students with memberships, which primarily led to the decrease from 754,567 visits
15 for the quarter ended June 30, 2016.” The discussion also included numerous
16 “[f]actors” that could cause the “estimates to differ.”

17 51. Those statements in ¶50 above were materially misleading because they
18 omitted material facts from the Company’s financial statements demonstrating
19 multiple significant year-over-year negative trends that also reflected adversely on the
20 Company’s studio-level profitability, ability to successfully acquire and integrate
21 studios and to reduce costs by leveraging corporate overhead and scale, and the
22 Company’s long-term acquisition plan. As of the IPO:

23 (a) the Company’s financial statements reflecting deferred revenues
24 for second quarter ended June 30, 2017 demonstrated combined net revenue and
25 deferred revenues year-over-year had declined. The statement that the “sales mix shift
26 resulted in less revenue being recognized during the second quarter of 2017 than the
27 same quarter in 2016,” was materially false and misleading because the amount of
28 deferred revenue was less than the difference between net revenue in those year-over-

1 year quarters. Contrary to the impression that the sum of net revenues and deferred
 2 revenues increased year-over-year, that sum had **decreased**, meaning that the shift in
 3 sales towards class packages was not improving the Company's business. As written
 4 by one financial writer when the omitted information was revealed, the "with \$12.5
 5 million in revenue and \$0.6 million in deferred revenue increase" – "[t]his is still
 6 below the \$13.3 million of revenue posted in 2Q16. . . . A \$0.6 million increase in
 7 deferred revenues barely masks this quarter's disappointing revenue performance."

8 (b) the Company's financial statements reflected Studio-Level
 9 earnings before tax, depreciation and amortization ("EBITDA") had **declined more**
 10 **than 15%** to approximately \$2.2 million in the second quarter ended June 30, 2017
 11 from \$2.6 million for the second quarter ended June 30, 2016. This meant that the
 12 Company significantly missed its internal margin target of 20%, for the Studio-Level
 13 EBITDA margin had declined to approximately 17.39% in the second quarter ended
 14 June 30, 2017 from 19.36% for the second quarter ended June 30, 2016. Not only did
 15 the decreasing margin reflect a quarterly year-over-year trend, it reflected a significant
 16 year-over-year decline of over 10% and a sequential recurring decline below the level
 17 of profitability admittedly needed by the Company to obtain sufficient return on
 18 capital to fund its operational strategy.

19 (c) the Company's financial statements reflected overall net loss,
 20 EBITDA and Adjusted EBITDA significant declines for the second quarter ended
 21 June 30, 2017. Net loss **increased 150%** to approximately \$4.4 million from \$2.8
 22 million for the second quarter ended June 30, 2016. Adjusted EBITDA increased
 23 **more than tenfold (10x)** to approximately (\$551,000) from (\$46,000) for the second
 24 quarter ended June 30, 2016. As one financial writer put it upon learning of the
 25 omitted information, "Adjusted EBITDA's massive decline from -\$46,000 to -
 26 \$551,000 . . . shows that the company is still unable to capture true operating leverage
 27 on its portfolio of 50 yoga studios. The corporate segment is still eating up too much
 28 of profits without providing any meaningful improvement to the studio portfolio."

1 52. A theme in the Registration Statement was that revenues and class visits
2 in certain periods were temporarily declining due to a shift in business and pricing
3 strategy towards selling more class packages, which would increase business and even
4 in the short term be offset by increased deferred revenue. For example, the
5 Registration Statement stated:

6 *With the adoption of our more flexible pricing strategy in July 2016,*
7 *our sales mix has shifted toward a higher number of class-package*
8 *sales and a corresponding decline in monthly membership sales.* We
9 anticipate this trend to continue at a decreasing rate over time as students
10 in our existing studios purchase class packages more frequently than
11 memberships and as we acquire and open additional studios, and expect
12 a more balanced mix between class packages and memberships over
13 time. *We expect that the impact of this shift in sales mix will be a*
14 *reduction in the amount of revenue recognized in a given period by an*
15 *increase in deferred revenue liability associated with class package*
16 *sales, as well as a decrease in student visits, as students on class*
17 *packages tend to visit studios less than students with membership.*

18 (Emphasis added.)

19 53. And with respect to studio visits, the Registration Statement stated:

20 *Our decision to offer class packages at all of our studios also*
21 *impacted our number of visits,* as students on class packages tend to
22 visit studios less than students with memberships, which primarily led to
23 the decrease from 754,567 visits for the quarter ended June 30, 2016.
24 *We anticipate this trend to continue at a decreasing rate over time as*
25 *students in our existing studios purchase class packages more*
26 *frequently than memberships and as we acquire and open additional*
27 *studios, and expect a more balanced mix between class packages and*
28 *memberships over time.* While our strategy to sell more class packages

1 has had an impact on both our net revenues and visits during the
2 transition period, we believe the implementation of this strategy allows
3 us to better serve our students and will draw a broader student base as
4 consumers favor more flexible pricing options.

5 (Emphasis added.)

6 54. The above statements in ¶¶52-53 were materially false and misleading
7 when made and omitted material facts. It was internally understood at the Company
8 that the shift to class packages was made in advance of the IPO to increase cash flow,
9 as package prices were greater than monthly membership charges. The relationship of
10 deferred revenue to lost membership revenue was not as described and revenue had
11 been decreasing as a result of other factors. Cost-cutting measures instituted since
12 Great Hill Partners acquired YogaWorks were negatively impacting class quality and
13 customer experience, which related internal metrics as of the IPO explained
14 decreasing visits and revenues. Those measures included cutting pay and reducing
15 management and employee headcount or backfilling positions with lower paid, lesser
16 qualified employees across the organization. Cleaning costs were cut and cleaning
17 labor was reduced as well.

18 55. Thus, total student visits per quarter for the last four consecutive quarters
19 of 2016 leading up to the IPO, *i.e.*, since before (and not because of) the Company-
20 wide sales mix shift to class packages. Student visits also declined quarter over
21 quarter leading up to the IPO, declining from 789,677 in the first quarter of 2016, to
22 760,707 in the second quarter of 2017, and from 754,595 in second quarter of 2016 to
23 705,979 in the second quarter of 2017. Similarly, students per class decreased from
24 17.6 in first quarter of 2016 to 16.8 in first quarter of 2017 and from 16.3 in second
25 quarter of 2016 to 15.6 in second quarter of 2017. Half of these year-over-year
26 statistics were omitted from the Registration Statement, as well as four of the quarterly
27 statistics, which would have revealed consistent sequential declines for over a year.
28 The students per class declined from 17.6, to 16.3, to 15.8, to 15.1, and from 16.3 to

1 15.6, respectively, for the first through fourth quarters of 2016, and from the second
2 quarter of 2016 to the second quarter of 2017. The reduction in the number of student
3 visits resulted in fewer classes per studio and lower revenue per studio.

4 56. The Registration Statement asserted: “As a result of our quality class
5 offerings, talented teachers and solid brand reputation, we have achieved a strong
6 historical financial performance.” This was emphasized with statements including
7 “we have a proven history of retaining and improving the student and teacher focus of
8 each studio or chain of studios acquired.” Those statements were materially false and
9 misleading and omitted material facts, for the reasons stated above at ¶¶51, 54-55, and
10 the reasons that follow. Cost cutting had reduced staff (including teachers) at studios
11 and reduced management across the organization. Positions were backfilled with
12 lesser paid and lesser qualified staff, teachers and management. The resulting class
13 disruption and diminished quality from cost cutting had been consistently and
14 significantly reducing visits per class Company-wide for over a year. Not only did
15 that reflect adversely on the YogaWorks “brand,” it was having a corresponding
16 negative effect on revenue and Studio-Level EBITDA. Thus, as of the IPO, organic
17 growth from the factors touted was not occurring and the Company was below the
18 level of profitability admittedly needed by the Company to obtain sufficient return on
19 capital to fund its operational strategy.

20 57. The Registration Statement stated YogaWorks would benefit from
21 economies of scale and from centralized management and less overhead per capita.
22 Further, defendants stated that YogaWorks had a corporate infrastructure in place to
23 support its future acquisition growth such that as YogaWorks grew, its overhead costs
24 would become a smaller percentage of revenue of profitability, stating in relevant part:

1 ***Leverage our Infrastructure***

2 In preparation for our continued growth, we have built out our
3 corporate infrastructure over the past several years. We now have the
4 corporate, regional and studio-level management personnel in place, as
5 well as the information technology platform, to support our future
6 growth and acquisition strategy, without significant new investments in
7 corporate infrastructure.

8 58. Additionally, the Registration Statement asserted that strong studio-level
9 economics would allow it to achieve economies of scale, thereby reducing overhead
10 costs as a percentage of revenue, stating in relevant part:

11 As our studio base grows, expenses for our corporate and regional
12 overhead should become a smaller percentage of our net revenues and
13 profitability.

14 59. The above statements in ¶¶57-58 were materially false and misleading
15 when made and omitted material facts. At the time of the IPO, YogaWorks' corporate
16 overhead expenses were increasing as a percentage of sales and profitability. For the
17 second quarter ended June 30, 2017, YogaWorks incurred "[o]ther general and
18 administrative expenses" of \$2.7 million, or 21.7% of net revenue as compared to
19 \$2.6 million for the same quarter in 2016, or 19.8% of revenue. In addition, because
20 the Company had been backfilling regional and studio level management positions
21 with lesser paid, lesser qualified personnel, it was causing disruption and necessitating
22 training, which in turn was increasing costs. Moreover, as of the IPO, the Company
23 was also in the process of acquiring multiple smaller, less efficient studios that
24 generated revenue substantially below the \$500,000 to \$700,000 level the Registration
25 Statement identified. As a result, the Company expected to continue to incur
26 increased expenses without corresponding revenue, and this trend was continuing into
27 the third quarter of 2017 (half of which was over at the time of the IPO) in which
28 YogaWorks incurred "[o]ther general and administrative expenses" of \$3.1 million, or

22.6% of net revenue as compared to \$2.5 million for the same quarter of 2016, or 18.2% of revenue.

60. The Registration Statement represented that YogaWorks had “strong studio-level economics” as a result of targeting studios with average annual revenues of at least \$500,000 and a return of capital within two to four years of opening the new studio, stating in relevant part:

Strong Studio-Level Economics

We seek to generate attractive studio-level margins by increasing the average number of students per class which in turn provides better return on our fixed costs, such as teacher salaries and rent. ***We target studios with average annual revenues between \$500,000 to \$700,000 and a return on our invested capital to be within two to four years of opening a new studio. We approach our acquisition targets seeking similar returns.*** We believe that our strong studio-level economics are important for us to grow our studio base and successfully execute our acquisition strategy.

(Emphasis added.)¹

61. The Registration Statement also reported Studio-Level EBITDA for the three months ended March 31, 2017 and March 31, 2016 of \$3.2 million and \$4.4 million, respectively, and Studio-Level EBITDA margins for the same period of 22.9% and 29.1%, respectively. It also reported Studio-Level EBITDA for both the year-ended December 31, 2016 and December 31, 2015 of \$12.4 million and Studio-Level EBITDA margins for the same periods of 22.5% and 25.6%, respectively.

62. The above statements in ¶¶60-61 were materially false or misleading and omitted material facts when made. As of the IPO, YogaWorks had not been acquiring

¹ In order to obtain a complete return on invested capital within two to four years, the studio-level EBITDA margins would have to be at least 20%, Conference Presentation, YogaWorks’ at the 4th Annual Cowen’s Future of the Consumer Conference, 18 (April 3, 2018), <https://ir.yogaworks.com/static-files/1624037d-bee7-473a-9e28-08776ae8aade>.

1 studios with the economics that it reported. As a result of YogaWorks' deteriorating
2 financial position before the IPO, it had begun acquiring smaller, less efficient studios
3 that did not meet the criteria set forth in the Offering Materials of generating \$500,000
4 to \$700,000 in revenue per year. And it had smaller, less efficient studios in its
5 pipeline. For the third quarter 2017, YogaWorks acquired only three new studios for a
6 total of \$445,000. Moreover, the Registration Statement omitted Studio-Level
7 EBITDA results for the past two quarters that showed both year-over-year and
8 sequential decreases *below* the Company's stated threshold for studio acquisition
9 economics. YogaWorks' Studio-Level EBITDA margin for the second quarter ended
10 June 30, 2017 at the time of the IPO was only approximately 17.39%, well below the
11 necessary 20% needed to recoup investment within two to four years. And for the
12 second quarter ended June 30, 2017, Studio- Level EBITDA margin declined to
13 17.39% from 19.36% for the second quarter ended June 30, 2016, representing a
14 significant year-over-year decline of over 10% and a sequential recurring decline
15 below the level of profitability admittedly needed by the Company to obtain sufficient
16 return on capital to fund its operational strategy.

17 63. Indeed, this trend continued as YogaWorks continued to experience
18 Studio-Level EBITDA margin declines below the necessary threshold of 19.2%,
19 18.6%, 18.1% and 14.8% for the third quarter of 2017, fourth quarter of 2017, first
20 quarter of 2018 and second quarter of 2018, respectively.

21 64. The Registration Statement stated that the Company's "leverageable
22 infrastructure," "studio acquisition experience," and "tested integration procedures,"
23 among other things, enabled YogaWorks to "*preserve the acquired studio's unique*
24 *appeal to its local community while successfully increasing visits and net revenues*
25 *under our ownership.*" That statement was materially misleading because it omitted
26 material facts concerning the Company's then-present acquisition economics and
27 studio-level performance, as set forth in ¶¶51, 54-56, 59 above. One significant
28 reason why overall visits per class and overall Studio-Level profitability was

1 consistently declining was that class disruption and backfilled management and
2 teacher positions were changing studio appeal, including customer experience and
3 class quality.

4 65. The Registration Statement contained pages and pages of numerous
5 generalized possible “Risk Factors” that “*could*” possibly occur in the future and if
6 they did actually occur, “*could* have a material adverse effect on [YogaWorks’]
7 business.” Those statements were false or misleading and omitted material
8 information because at times what was presented as possible “risks” that “could”
9 happen were matters that had already materialized and were then-presently
10 significantly adversely impacting the Company as of the IPO.

11 66. The Registration Statement presented “net losses” only as a possibility,
12 when, in fact, as of the IPO, YogaWorks was set to take in significant second quarter
13 2017 net losses and was on track to do the same in the third quarter 2017 (*see* ¶¶59,
14 81). It stated:

15 In 2015, we recorded an impairment of goodwill of \$0.9 million.
16 We did not record any impairment losses related to goodwill in 2016. As
17 of December 31, 2016, our goodwill balance was \$17.7 million.
18 Accounting rules require the evaluation of our goodwill at least annually,
19 or more frequently when events or changes in circumstances indicate that
20 the carrying value of such assets may not be recoverable. Such
21 indicators are based on market conditions and the operational
22 performance of our business. In testing goodwill for impairment, if the
23 implied fair value of the goodwill is less than the reporting unit’s
24 carrying amount, then goodwill is impaired and is written down to the
25 implied fair value amount. If a significant amount of our goodwill were
26 deemed to be impaired, our business, financial condition and results of
27 operations could be materially adversely affected.
28

1 We incurred a net loss of \$2.6 million for the three months ended
2 March 31, 2017, \$1.5 million for the three months ended March 31,
3 2016, \$9.5 million in 2016 and \$9.2 million in 2015 and had net cash
4 provided by operating activities of \$0.8 million in 2016. *If we continue*
5 *to experience net losses or our cash flows from operating activities*
6 *decline or become negative, it could require us to lower our assessment*
7 *of the fair value of our business. If this were to occur*, we could be
8 required to record additional material impairment charges to goodwill or
9 other intangible assets which could have a material adverse effect on our
10 business, financial condition and results of operations.

11 (Emphasis added.)

12 67. The statements above were false and misleading and omitted material
13 facts as set forth above and in ¶51. In fact, YogaWorks' *net loss* for the quarter ended
14 June 30, 2017, which was complete before the IPO had *already increased* by more
15 than 50% over the same quarter of the prior year, and *net cash flows* from operating
16 activities had, as of the IPO, *already decreased* from cash *loss* for the six months
17 ended June 30, 2016 of a *negative* \$450,069 to a *further cash loss* for the six months
18 ended June 30, 2017 of a *negative* \$821,650. Those trends, revealed in the
19 Company's second quarter 2017 results as of the IPO, showed deteriorating net losses.
20 Indeed, the risk concealed by that omitted information materialized with the recording
21 of a goodwill impairment of \$7.5 million at the end of 2017, and an additional
22 goodwill impairment of \$2.5 million assessed in the second quarter of 2018.

23 68. The Registration Statement stated:

24 *Our growth strategy is highly dependent on our ability to successfully*
25 *identify and acquire studio targets and integrate their operations with*
26 *ours.*

27 Our growth strategy primarily contemplates expansion through
28 targeted acquisitions of other yoga studio businesses. Implementing this

1 strategy depends on our ability to successfully identify opportunities that
2 complement our businesses, share our business and company philosophy
3 and operate in markets that are complementary to our operations and the
4 communities in which we operate. We will also need to assess and
5 mitigate the risk of any target opportunity, to acquire targets on favorable
6 terms and to successfully integrate their operations with ours. *We may*
7 *not be able to successfully identify opportunities that meet these*
8 *criteria, or, if we do, we may not be able to successfully negotiate,*
9 *finance, acquire and integrate them. Even if we enter into*
10 *confidentiality agreements or letters of intent with potential studios, we*
11 *may not be able to complete the acquisition. If we are unable to*
12 *identify and acquire suitable studios, our revenue growth rate and*
13 *financial performance may fall short of our expectations. If we are*
14 *successful in acquiring studio targets, we may not be able to*
15 *successfully integrate the operations of these studios with ours, to*
16 *execute the growth objectives of our combined operations or to realize*
17 *the revenue opportunities or cost savings that may be assumed.* In
18 addition, any such opportunity may require us to raise additional capital,
19 which may be dilutive to our existing shareholders, or require us to incur
20 additional indebtedness. *If our analysis of the suitability of a studio or*
21 *group of studios for acquisition is incorrect, we may not be able to*
22 *recover our capital investment in acquiring such studios.*

23 (Emphasis added.)

24 69. It also stated:

25 Our recently acquired or newly opened studios *may* negatively impact
26 our financial results in the short-term, and *may* not achieve sales and
27 operating levels consistent with our existing studios on a timely basis, or
28 at all.

1 70. The statements above in ¶¶68-69 were materially false and misleading
2 because, as shown in ¶¶59, 62 above, the Company had **already** been acquiring
3 studios that **did not** meet the Company’s “criteria” and were not “suitable studios”
4 (¶68) concerned financial performance, and such acquired studios as well as studios in
5 the pipeline were **already** not generating revenues sufficient “to recover
6 [YogaWorks’] capital investment.” In addition, the Company was already suffering
7 from an inability to achieve “cost savings” that it was assuming, as demonstrated in
8 ¶¶51, 59, 62 above.

9 71. The Registration Statement also stated:

10 *If we fail to attract new students and teachers and retain existing*
11 *students and teachers, it could have an adverse impact on our growth*
12 *strategy as we may not be able to increase the number of visits to our*
13 *studios or students that go through our teacher training.*

14 The performance of our studios and success of our growth strategy
15 is largely dependent on our ability to continuously attract new students
16 and teachers and retain existing students and teachers. We cannot be
17 sure that we will be successful in these efforts, or that visits to our studio
18 classes and teacher trainings or participation in MyYogaWorks.com will
19 not materially decline. There are numerous factors that could lead to a
20 decline in visits at established studios or that could prevent us from
21 increasing our student visits at newer or acquired studios, including harm
22 to our reputation, a decline in our ability to deliver quality yoga classes
23 and teacher trainings at a competitive cost, the opening or acquisition of
24 new studios or hosting of additional teacher trainings that may have the
25 potential to cannibalize store sales in existing areas, the heightened
26 presence of direct and indirect competition in the areas in which the
27 studios are located, the decline in the public’s interest in fitness through
28 yoga, a deterioration of general economic conditions and a change in

1 consumer spending preferences or buying trends. As a result of these
2 factors, we cannot be sure that our student visits will be adequate to
3 maintain or permit the expansion of our operations. *A decline in student*
4 *visits levels may have a material adverse effect on our business,*
5 *financial condition, results of operations and growth rate.*

6 (Emphasis added.)

7 72. Those statements above were materially false and misleading because, as
8 of the IPO, student visits were *already* consistently declining in sequential and year-
9 over-year quarters, for the reasons stated at ¶¶54-55 above. One of the reasons for
10 that was that the Company had been for years replacing teachers, staff and
11 management with lesser paid, less qualified personnel as part of the Company's cost-
12 cutting strategy. Consequently, materially declining student visits were *already*
13 having a material adverse effect on YogaWorks, as shown in ¶¶51, 54-56 above, for
14 revenues had been declining in in part as a result of declining class quality and
15 customer experience.

16 73. The Registration Statement also stated:

17 We may expand into markets where we have little or no direct
18 prior experience, and we could encounter unanticipated problems, cost
19 overruns or delays in opening studios in new markets or in the market
20 acceptance of our studios. We will need to continue to improve our
21 operating, administrative, financial and accounting systems and controls.
22 We will also need to recruit, train and retain new yoga instructors,
23 teacher trainers, studio and regional managers and other team members
24 and maintain close coordination among our executive, accounting,
25 finance, human resources, legal, marketing, sales and operations
26 functions.

27 74. Those statements above were materially false and misleading because, as
28 of the IPO, due to cost cutting, the Company was *already* incurring substantial

1 overhead and studio-level expenses as a result of it backfilling management, staff and
2 teacher positions, as alleged at ¶¶54-56. The Company's problems were not just a
3 matter of future expansion, YogaWorks was already bleeding red ink as a result of its
4 past and ongoing cost-cutting measures that were not revealed and the risks of which
5 were materializing as of the IPO, as shown in the omitted net losses and Studio-Level
6 profitability metrics.

7 75. Each of the material omitted facts alleged above explains why all the
8 alleged statements were material misstatements or materially misleading. Moreover,
9 Item 303 of SEC Regulation S-K, 17 C.F.R. §229.303(a)(3)(ii), required defendants to
10 "[d]escribe any known trends or uncertainties that have had or that the registrant
11 reasonably expects will have a material favorable or unfavorable impact on the sales
12 or revenues or income from continuing operations." Similarly, Item 503 of SEC
13 Regulation S-K, 17 C.F.R. §229.503(c), requires, in the "Risk Factor" section of
14 registration statements and prospectuses, "a discussion of the most significant factors
15 that make the offering speculative or risky" and that each risk factor "adequately
16 describes the risk."

17 76. The failure of the Registration Statement to disclose that the Company
18 was experiencing year-over-year quarterly declines in Studio-Level profitability at a
19 level below the Company's threshold to return capital in order to fund the Company's
20 operational strategy, and that visits per class across the organization were consistently
21 sequentially declining on a quarterly basis violated 17 C.F.R. §229.303(a)(3)(ii),
22 because these undisclosed facts would (and did) have an unfavorable impact on the
23 Company's sales, revenues and income from continuing operations. This failure also
24 violated 17 C.F.R. §229.503(c), because these specific risks were not adequately
25 disclosed, or disclosed at all, even though they were some of the most significant
26 factors that made an investment in shares of YogaWorks speculative or risky.

**ADDITIONAL FACTS DEMONSTRATING THE OMITTED FACTS
WERE MATERIAL AND THEREFORE WOULD HAVE BEEN
CONSIDERED SIGNIFICANT BY INVESTORS**

77. In addition to the nature of the omitted information alleged herein, the reactions of ordinary investors, independent analysts and the market, to revelations of previously omitted information, demonstrates materiality.

78. YogaWorks was promoted and propped up by a phalanx of securities analysts employed by the Underwriter Defendants. Analysts employed by every single Underwriter Defendant wrote positive analyst reports even as the Company reported negative financial results and the Company's stock price moved towards penny stock territory. This was recognized by the investing community as investors and independent analysts responded to previously omitted information. As one independent registered investment advisor providing analysis for Seeking Alpha, wrote: the analyst reports with "sky high valuations [were] from the very same firms who brought the IPO to market." Conference call attendance was also closely controlled and dominated by the analysts working for the Underwriter Defendants. This, too, did not go unnoticed by the investing community, as reported on Seeking Alpha: "There were two things notably missing from the call. The first was ANY talk of you know, actually being profitable. Both the company and the analysts were all too happy to discuss deferred revenue and future M&A activity; not one person bothered to stop and discuss growing losses." "Analysts covering the company have all mimed each other in publishing a price target of \$7 for the stock – though it must be noted, research coverage from the mid-tier banks that underwrote the offering (Cowen, Stephens, and Guggenheim) are unlikely to be perfectly impartial."

79. Just weeks after the IPO, on September 21, 2017, after the close of the market, YogaWorks announced its second quarter financial results for the period ending June 30, 2017. The press release contained multiple financial metrics available as of the IPO, but not reported in the Registration Statement's discussion of ***"Preliminary Second Quarter Results."*** YogaWorks reported a net loss of \$4.4

1 million, nearly double that of the same period of the previous year, Adjusted EBITDA
2 losses over ten times greater than the same period of the previous year and Studio-
3 Level EBITDA of \$2.2 million as compared to \$2.6 million for the same period of the
4 previous year. Although YogaWorks blamed the decline in net revenue on the shift
5 from monthly memberships to class packages, deferred revenue only increased \$0.5
6 million, and in the Report on Form 10-Q filed on September 22, 2017, as well as
7 information provided in connection with the Company's conference call on
8 September 21, 2017, the Company revealed student visits, number of classes and
9 students per class were down quarter over quarter.

10 80. Gary Alexander, providing analysis for Seeking Alpha, wrote a report
11 disseminated after the close of the market on September 22, 2017, entitled:
12 "YogaWorks: Q2 Leaves A Lot To Be Desired."

13 A drop in revenues is a drop in revenues – don't be distracted by
14 management's shifting of attention to class packages. A \$0.6 million
15 increase in deferred revenues barely masks this quarter's disappointing
16 revenue performance. Profitability also took a hit Adjusted
17 EBITDA's massive decline from -\$46,000 to -\$551,000 already excludes
18 the effect of legal settlements, and shows that the company is still unable
19 to capture true operating leverage on its portfolio of 50 yoga studios. The
20 corporate segment is still eating up too much of profits without providing
21 any meaningful improvement to the studio portfolio.

22 A registered investment advisor, writing for Seeking Alpha the same day, also
23 criticized the "class packages" explanation by the Company, and reacted negatively to
24 the Company's revenue guidance for 2017, among other things. On the same day,
25 though admitting Studio-Level EBITDA and earnings were worse than expected,
26 analysts employed by Underwriter Defendants, continued with "Buy"
27 recommendations and price targets vastly exceeding the Company's trading price.
28

72. YogaWorks' stock price dropped from \$4.00 per share on September 21, 2017 to \$3.53 per share on September 22, 2017, a fall of over 11% on heavy trading volume, and continued to decline to \$2.83 per share in trading shortly thereafter as investors reacted to the negative financial results, and declining studio visits, classes and students per class statistics.

81. In its maiden quarter as a public company – a quarter that was half-way completed when YogaWorks closed its IPO, the Company reported more increased losses year-over-year. After the market's close on November 14, 2017, the Company reported a net loss of \$4.6 million for the third quarter ended September 30, 2017, nearly *twice* that compared to the Company's net loss from the same period in 2016. Adjusted EBITDA significantly decreased to a *negative* \$432,000 as compared with a *positive* \$428,000 from the same period in 2016. Studio-Level EBITDA *decreased* approximately 10% year-over-year and Adjusted net loss increased almost 40% year-over-year. Student visits declined year-over-year, again. Investors again demonstrated that the Company's year-over-year quarterly declines in profitability and other metrics were important.

82. Securities analysts employed by the Underwriter Defendants acknowledged earnings measures were less than expected, including EPS, and Studio-Level EBITDA and Studio-Level EBITDA margin, which both posted year-over-year declines. But they maintained "Buy" ratings with price targets nearly *three times* the YogaWorks trading price. Again, this did not go unnoticed by investors. Registered Investment Advisor F. S. Maks, wrote an analysis for Seeking Alpha that was disseminated on the morning of November 16, 2017.

One of the most important parts of the earnings process is the Q&A session of the conference call. It is here where you get analysts asking hard hitting questions, as opposed to the massaged message as presented during the prepared remarks or in the 8k. With YogaWorks however this is not the case. At least 4 out of the 5 analysts were

1 underwriters of the IPO and the questions were more effective as
2 stroking management's ego as opposed to being beneficial to
3 shareholders.

4 Notably missing were any tough questions dealing with the
5 breakdown of revenue . . . or discussions of what it would take for
6 YogaWorks to be profitable at the bottom line and to be able to start
7 returning capital to shareholders.

8 83. With respect to the reported results, independent analysts responded
9 negatively. Gary Alexander, providing analysis for Seeking Alpha, wrote a report
10 disseminated on the afternoon of November 15, 2017, entitled: "YogaWorks: Profits
11 Deteriorate, But Adding Studios Ahead of Plan." "General and administrative
12 spending has nearly doubled y/y" "Expenses . . . are out of control. . . . The big
13 question is: Is this a company that can continue to scale and add studios without
14 emptying the bank? Based on recent moves in the stock price, investors don't
15 seem to think so." "Studio-Level EBITDA . . . [i]s it just dragging down the individual
16 studios with the overhead expense (\$8.1 million year to date) and dragging red ink
17 across the company's bottom line?" "Until the company sheds some light on how its
18 expanded collection of studios is contributing to profits and not just revenue, I'd stay
19 on the sidelines." At approximately 7:00 a.m. the next day, F. S. Maks wrote an
20 analysis for Seeking Alpha entitled: "YogaWorks: Like Kid Sports Where You
21 Don't Keep Score." "\$4.6 million lost in the quarter, nearly double from Q3 2016 . . .
22 flat year over year revenue despite acquiring new studios." "YogaWorks completely
23 fell apart on the things that matter" "What other company celebrates not growing
24 revenues year over year?" "The 'adjusted EBITDA' came in at a loss of \$432,000,
25 within their guidance of a \$300,000 to a \$800,000 loss. The concerning part for all
26 investors however is that this compares with a \$428,000 profit a year ago."

27 84. YogaWorks' stock price dropped from an open of \$2.86 per share on
28 November 15, 2017 to close at \$2.61 per share on November 16, 2017 and traded as

1 low as \$2.35 per share, a fall of between approximately 9% and 18%, on heavy
2 trading volume, as investors as investors reacted to the negative results.

3 85. On April 2, 2018, YogaWorks announced its financial results for the
4 fourth quarter of 2017 and full year 2017 by filing a non-timely annual report with the
5 SEC on Form 10-K, along with a Form 12b-25 indicating that YogaWorks was unable
6 to timely file its annual report “due to a delay in finalizing a goodwill impairment
7 charge related to the book value of the Company, relative to the Company’s currently
8 market capitalization”. For 2017, YogaWorks recorded net revenue of \$54.5 million
9 (as compared to \$55.1 million in 2016) and a net loss of \$23.4 million – more than
10 double the \$9.5 million loss recorded in 2016. YogaWorks’ hand-picked non-GAAP
11 metric Studio-Level EBITDA also declined from \$12.4 million to \$10.7 million.
12 YogaWorks also late recorded a goodwill impairment charge of \$7.5 million, which
13 represented over one-third of its’ prior goodwill asset, “primarily due to projected
14 cash flows and the Company’s decline in market capitalization since the launch of the
15 IPO.” Investors again demonstrated that the Company’s year-over-year quarterly
16 declines in profitability and other metrics were important.

17 86. Securities analysts employed by the Underwriter Defendants,
18 acknowledged earnings measures were less than expected or flat, including EPS,
19 Adjusted EBITDA and Studio-Level EBITDA and Studio-Level EBITDA margin,
20 nonetheless maintained positive ratings with price targets nearly *two to three times* the
21 YogaWorks trading price. It was pointed out to investors that analysts
22 “predominantly the underwriters . . . asked softball questions” and omitted probing
23 discussion of major causes for concern in response to the Company’s recent reporting.

24 87. With respect to the reported results, independent analysts responded
25 negatively. F. S. Maks wrote an analysis for Seeking Alpha disseminated at 12:53
26 p.m. on April 3, 2018, entitled: “YogaWorks: Worse Than Expected.” He wrote:
27
28

During this time period the company reported a GAAP Net Loss of \$11.8 million which compared with a \$2.7 million loss for the same quarter last year.

* * *

The big area of concern however is with the full year results.

For the full year ending 12/31/2017 the company reported net revenues of \$54.5 million. This is down from \$55.1 million earned by the company for the prior year.

The company's losses also got worse as the company reported a full year GAAP net loss of \$23.4 million, up from a \$9.5 million loss a year ago.

* * *

Even on a Non-GAAP basis the company's results deteriorated.

On a Non-GAAP basis the company reported a \$1.2 million Adjusted EBITDA loss, which compares with a \$1.7 million EBITDA profit a year ago.

Quite concerning of course is the studio level EBITDA which declined to \$10.7 million down from \$12.4 million a year ago. This is a 13.7% year over year decline.

Lastly, even excluding the “one time” goodwill adjustment charges the company took this quarter, the company’s adjusted net loss increased to \$11.7 million from \$9.1 million a year ago. This is a 28.57% worse than a year ago.

He then summarized multiple “*major causes for concern*”:

1. Growing Losses – the losses grew in all manners, both at the top and bottom line.

2. Declining Revenues – The company’s revenues declined year over year, DESPITE significantly growing their number of studios. Revenues declined from \$55 million to \$54 million.

3. Declining Per Studio Revenue – Breaking it down further, we can see that YogaWorks generated \$14.5 million from 66 studios in Q4. This works out to \$219k per studio. This is down from the \$13.2 million generated by 49 studios, or \$269k per studio a year prior.

4. Declining Per Studio EBITDA – \$2.7 million was generated by 66 studios, or \$40.9k per studio in Q4 2017. This compares with \$2.5 million earned by 49 studios, or \$51k per studio in Q4 2016.

88. YogaWorks' stock price fell from an open of \$2.94 per share on April 2, 2018 to a close of \$2.35 per share on April 3, 2018, a 20% decline on heavy trading volume, nearly 60% below the IPO price.

89. Gary Alexander, providing analysis for Seeking Alpha, on April 6, 2018, wrote a report entitled “YogaWorks: More Trouble Looms Ahead.” Referring to the reaction of investors to the recent reports from the Company, he wrote:

YogaWorks disappointed investors with its Q4 earnings release. The idea behind YogaWorks is that a highly centralized, efficient company can run a large, national chain of yoga studios and generate premium growth and profitability.

* * *

Considering the company added 16 studios in the quarter (and versus last year's Q4, that's 17 net studio adds), it's shocking that these additions contributed to producing just 10% y/y revenue growth.

Even more puzzling - YogaWorks' guidance for FY18 calls for \$57-59 million of revenues. . . . The guidance almost implies that per-studio revenues will take a nosedive.

1 Under a section called “**Growing losses call liquidity into question**,” Alexander
2 wrote:

3 For the full FY17, YogaWorks’ adjusted EBITDA sank to a loss
4 of -\$1.2 million - and that’s down from a profit of \$1.7 million in FY16.
5 Net losses widened to -\$23.4 million (a -43% net margin), more than
6 twice the loss of -\$9.5 million in FY16. Adjusted EBITDA is also
7 forecast to get worse in FY18, with a range of -\$3 million to -\$4 million.
8 What this is essentially telling investors is that, no, YogaWorks can’t
9 quite expand efficiently nor run its studios more profitably.

10 * * *

11 With a terrible track record for executing against its own targets as well
12 as lackluster guidance for the coming year, YogaWorks remains a stock
13 to avoid.

14 90. On August 14, 2018, YogaWorks announced its financial results for the
15 second quarter of 2018. YogaWorks reported significantly increased net losses – **50%**
16 **more losses** – over the same period the prior year (**negative** \$6.7 million from
17 **negative** \$4.4 million), nearly **three times** the loss in Adjusted EBITDA from the
18 same period prior (**negative** \$1.4 million from **negative** \$551 thousand), and flat
19 Studio-Level EBITDA compared to the same period the prior year. Making matters
20 worse, YogaWorks again recorded a goodwill impairment during the second quarter
21 of 2018, recording an additional \$2.5 million impairment for the quarter. Having cut
22 salaries and replaced management, which in part drove declining customer experience
23 and class quality as reflected in continued declining sequential and year-over-year
24 visit statistics, the Company reported it would need to increase corporate expenses
25 with training and brand building initiative. Investors again demonstrated that the
26 Company’s year-over-year quarterly declines in profitability and other metrics were
27 important.

1 91. YogaWorks' stock price fell from \$1.86 to close at \$1.09 per share, an
2 additional 41%, on August 15, 2018.

3 92. With YogaWorks approaching penny stock territory, a fraction of their
4 price targets, securities analysts employed by the Underwriter Defendants began to
5 downgrade their ratings and label their price targets "NA". On August 15, 2018,
6 before the open of the market, Guggenheim wrote "We Move to NEUTRAL on Base
7 Business Challenges." "2Q operating results were a mixed bag . . . revenue upside did
8 not flow through to the bottom line." The next day Stephens wrote "[g]ross margin
9 was meaningfully lower than expected . . . company modestly raised its FY18 revenue
10 guidance, but meaningfully lowered its adj. EBITDA guidance." On that same day
11 Roth reduced its target price, noting "studio-level EBITDA of \$2.2M (14.8% margin)
12 missed estimates." And Cowen downgraded with a headline of "Recommend Moving
13 to Sidelines," stating "margins are also expected to contract – reflected in the lowered
14 FY18 EBITDA guidance."

15 93. Gary Alexander, providing analysis for Seeking Alpha, on August 19,
16 2018, wrote a report entitled: "YogaWorks: Pushing Into Penny Stock Territory."

17 The company's adjusted EBITDA sank this quarter despite the
18 higher studio count, raising the question of whether YogaWorks'
19 business model is even viable.

20 Drilling down into the studio metrics raised some additional red
21 flags. The company's CEO noted that YogaWorks tried to implement
22 new classes to encourage more frequent attendance, but overall margins
23 were low. In addition, same-store visits (similar to same store sales
24 metrics at retail companies, which measures only the locations that have
25 been open for more than one year) declined -2% y/y.

26 Partly as a result of poor visitation metrics, YogaWorks' revenue
27 per studio (and profitability) has sagged. You'll note that despite having
28

1 a much larger studio count versus 2Q17, YogaWorks' per-studio
2 revenues have declined.

3 * * *

4 Studio-level EBITDA margins sank to 14.9%, 200 bps worse than
5 16.9% in the year-ago quarter. YogaWorks' CFO blamed the declining
6 studio EBITDA margin on 'challenging same-store visits, higher rent
7 and payroll costs for new and base studios,' as well as new classes which
8 result in lower classes until they are built out. Absolute adjusted
9 EBITDA, on the other hand, magnified losses to -\$1.4 million, or a -
10 9.2% margin that is 490 bps worse than -4.3% in 2Q17.

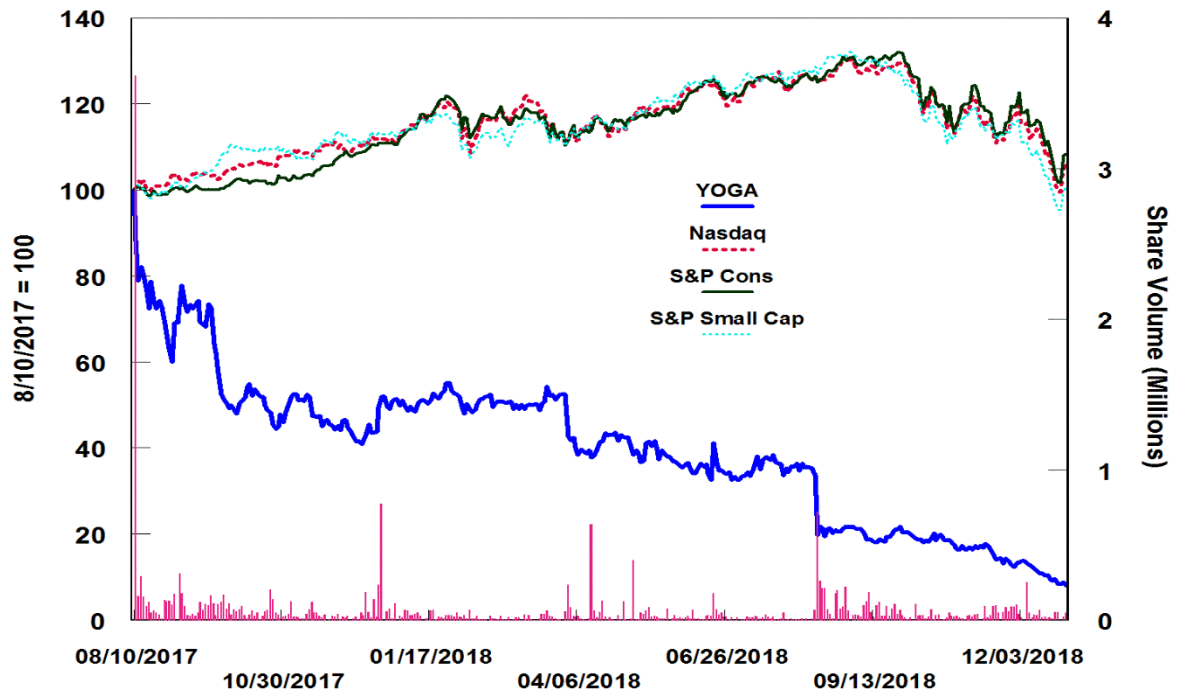
11 94. Raising the specter of liquidity, he concluded:

12 . . . [T]here's only \$15.5 million of cash remaining to support
13 YogaWorks' spending spree. If YogaWorks' current cash burn run rate
14 holds, it has barely over a year left of operations before it has to raise
15 additional capital. With shares trading near pink-sheet territory, raising
16 equity capital seems to be out of the question. On the credit side, only the
17 riskiest of venture-debt lenders would want to lend to an unprofitable
18 company like this - and even if YogaWorks were able to pull that off, it
19 would come at a crippling interest rate. . . . In my view, this company is
20 headed into the ground.

21 95. On December 12, 2018, YogaWorks filed an 8-K with the SEC,
22 announcing that on December 6, 2018 it received a letter from NASDAQ stating that
23 the market value of the publicly held shares of YogaWorks for the prior thirty
24 business days fell below the exchange's \$5 million minimum value and thus,
25 YogaWorks was subject to delisting if it was unable to regain compliance.
26 YogaWorks then received another similar letter from NASDAQ on December 12,
27 2018 for its noncompliance with NASDAQ's \$1.00 minimum share price requirement.

96. At the time of the filing of this action, YogaWorks' stock traded at \$0.44 or 92% below the IPO price. As shown below, YogaWork's trading price plummeted below comparable market and industry indices in response to the revelation of previously omitted negative company-specific information, showing investors considered the information important.

YogaWorks vs. Nasdaq, S&P Cons Discretionary Index & S&P Small Cap Index



LEAD PLAINTIFF'S CLASS ACTION ALLEGATIONS

97. Lead Plaintiff brings this action as a class action on behalf of all those who purchased or otherwise acquired YogaWorks common stock in the IPO, or pursuant and/or traceable to the Company's Registration Statement issued in connection with the IPO, and who were damaged thereby. Excluded from the Class are defendants and their families, the officers, directors and affiliates of defendants, at all relevant times, members of the defendants' immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

1 98. The members of the Class are so numerous that joinder of all members is
2 impracticable. There were 7.3 million shares were sold in the IPO. Since the IPO, the
3 Company's common stock has actively traded on NASDAQ. While the exact number
4 of Class members is unknown to Plaintiff at this time and can be ascertained only
5 through appropriate discovery, Plaintiff believes that there are hundreds, if not
6 thousands of members in the proposed Class. Record owners and other members of
7 the Class may be identified from records maintained by YogaWorks or its transfer
8 agent and may be notified of the pendency of this action by mail, using the form of
9 notice similar to that customarily used in securities class actions.

10 99. Lead Plaintiff's claims are typical of the claims of the members of the
11 Class, as all members of the Class are similarly affected by defendants' wrongful
12 conduct in violation of federal law as complained of herein.

13 100. Lead Plaintiff will fairly and adequately protect the interests of the
14 members of the Class and has retained counsel competent and experienced in class
15 and securities litigation.

16 101. The prosecution of separate actions by individual members of the Class
17 would create a risk of inconsistent or varying adjudication with respect to individual
18 members of the Class that would establish incompatible standards of conduct for the
19 party opposing the Class.

20 102. Common questions of law and fact exist as to all members of the Class
21 and predominate over any questions solely affecting individual members of the Class.
22 Among the questions of law and fact common to the Class are:

23 (a) Whether the 1933 Act was violated by defendants as alleged
24 herein;

25 (b) Whether the Registration Statement Offering Materials contained
26 material misstatements, materially misleading statements and/or omitted material
27 information required to be stated therein;

28

1 (c) Whether certain defendants controlled primary violators within the
2 meaning of the 1933 Act; and

3 (d) The extent to which members of the Class have sustained damages
4 and the proper measure of damages.

5 103. A class action is superior to all other available methods for the fair and
6 efficient adjudication of this controversy since joinder of all members is
7 impracticable. Furthermore, as the damages suffered by individual Class members
8 may be relatively small, the expense and burden of individual litigation makes it
9 impossible for members of the Class to individually redress the wrongs done to them.
10 There will be no difficulty in the management of this action as a class action.

11 **FIRST CAUSE OF ACTION**

12 **Violation of Section 11 of the 1933 Act Against** 13 **All Defendants Except Great Hill Partners**

14 104. Plaintiff repeats and incorporates each and every allegation contained
15 above as if fully set forth herein.

16 105. This Cause of Action is brought pursuant to §11 of the Securities Act, 15
17 U.S.C. §77k, on behalf of the Class, against all defendants. This is a non-fraud cause
18 of action. Plaintiffs do not assert that defendants committed intentional or reckless
19 misconduct or that defendants acted with scienter or fraudulent intent.

20 106. The Registration Statement for the IPO was inaccurate and misleading,
21 contained untrue statements of material facts, omitted to state other facts necessary to
22 make the statements made not misleading and omitted to state material facts required
23 to be stated therein.

24 107. Defendants are strictly liable to Plaintiffs and the Class for the
25 misstatements and omissions.

26 108. None of the defendants named herein made a reasonable investigation or
27 possessed reasonable grounds for the belief that the statements contained in the
28

1 Registration Statement were true and without omissions of any material facts and were
2 not misleading.

3 109. By reasons of the conduct herein alleged, each defendant violated, and/or
4 controlled a person who violated §11 of the 1933 Act.

5 110. Lead Plaintiff acquired YogaWorks common stock pursuant and/or
6 traceable to the Registration Statement for the IPO.

7 111. Lead Plaintiff and the Class have sustained damages pursuant to §11(e)
8 of the 1933 Act. In addition, as a result of the materially misleading Offering
9 Materials, YogaWorks' share price was inflated at the time of the IPO through which
10 YogaWorks raised approximately \$40.15 million in gross proceeds.

11 112. At the time of the purchase of YogaWorks common stock, Lead Plaintiff
12 and other members of the Class were without knowledge of the facts concerning the
13 wrongful conduct alleged herein and could not have reasonably discovered those facts
14 prior to the disclosures herein. Less than one year has elapsed from the time that
15 Plaintiffs discovered or reasonably could have discovered the facts upon which this
16 Complaint is based to the time that Plaintiffs commenced this action. Less than three
17 years has elapsed between the time that the common stock upon which this Cause of
18 Action is brought were offered to the public and the time Plaintiffs commenced this
19 action.

20 SECOND CAUSE OF ACTION

21 Violation of Section 12(a)(2) of the 1933 Act Against 22 The Company, The Executive Defendants, and The Underwriter Defendants

23 113. Lead Plaintiff repeats and incorporates each and every allegation
24 contained above as if fully set forth herein.

25 114. This Cause of Action is brought pursuant to §12(a)(2) of the 1933 Act, 15
26 U.S.C. §771(a)(2), on behalf of the Class, against the Company, the Executive
27 Defendant and the Underwriter Defendants.
28

1 115. This Cause of Action does not sound in fraud. Lead Plaintiff does not
2 allege that the Company, the Executive Defendants or the Underwriter Defendants had
3 scienter or fraudulent intent, which are not elements of a §12(a)(2) claim.

4 116. By means of the defective Prospectus and other conduct alleged herein,
5 including oral and written communications made by the Company, the Executive
6 Defendants and Underwriter Defendants in connection with the Company's road
7 show, defendants promoted and sold YogaWorks stock to Lead Plaintiff and other
8 members of the Class, for defendants' own financial benefit and the financial benefit
9 of their associates. The Underwriter Defendants additionally solicited their brokerage
10 clients and other members of the investing public to submit indications of interest and
11 subscriptions to purchase shares in the IPO. Lead Plaintiff was solicited by at least
12 one member of the underwriting syndicate, defendant Stephens Inc., and purchased
13 from that Underwriter Defendant.

14 117. The Prospectus and road show communications contained untrue
15 statements of material fact and concealed and failed to disclose material facts, as
16 detailed above. Defendants owed Lead Plaintiff, and the other members of the Class
17 who purchased YogaWorks common stock pursuant to the Prospectus, the duty to
18 make a reasonable and diligent investigation of the statements contained in the
19 Prospectus to ensure that such statements were true and that there was no omission to
20 state a material fact required to be stated in order to make the statements contained
21 therein not misleading. Defendants, in the exercise of reasonable care, should have
22 known of the misstatements and omissions contained in the Prospectus as set forth
23 above.

24 118. Lead Plaintiff did not know, nor in the exercise of reasonable diligence
25 could Lead Plaintiff have known, of the untruths and omissions contained in the
26 Prospectus, at the time Lead Plaintiff acquired YogaWorks common stock.

27 119. By reason of the conduct alleged herein, defendants named herein
28 violated §12(a)(2) of the 1933 Act. As a direct and proximate result of such

1 violations, Lead Plaintiff and the other members of the Class who purchased
2 YogaWorks common stock pursuant to the Prospectus sustained substantial damages
3 in connection with their purchases of stock. Accordingly, Lead Plaintiff and the other
4 members of the Class who purchased YogaWorks common stock issued pursuant to
5 the Prospectus seek damages to the extent permitted by law or seek to rescind and
6 recover the consideration paid for their shares, and hereby tender their common stock
7 to the defendants sued herein.

8 120. This Action is brought within three years from the time that the common
9 stock upon this Count is brought were sold to the public, and within one year from the
10 time when Lead Plaintiff discovered or reasonably could have discovered the facts
11 upon which this Count is based.

12 **THIRD CAUSE OF ACTION**

13 **Violation of Section 15 of the 1933 Act Against** 14 **The Individual Defendants and Great Hill Partners Defendants**

15 121. Lead Plaintiff repeats and incorporates each and every allegation
16 contained above as if fully set forth herein.

17 122. This Cause of Action is brought pursuant to §15 of the 1933 Act against
18 the Individual Defendants and the Great Hill Partners Defendants.

19 123. The Individual Defendants each were control persons of YogaWorks by
20 virtue of their positions as directors and/or senior officers of YogaWorks as of the
21 IPO. The Great Hill Partners Defendants each had the ability to influence the policies
22 and management of YogaWorks by their voting and dispositive control over
23 YogaWorks at all relevant times by common stock ownership, pre-IPO agreements
24 and by having their designated directors serving on the board of YogaWorks. The
25 Individual Defendants each had a series of direct and/or indirect business and/or
26 personal relationships with other directors and/or officers and/or major shareholders of
27 YogaWorks. The Great Hill Partners Defendants were not only control persons of
28 YogaWorks by virtue of their ownership of YogaWorks common stock, Board

1 membership, “services” provided YogaWorks, relationships with management and
2 involvement in establishing YogaWorks’ management and board, they also had
3 extensive contractual rights regarding YogaWorks’ governance, capitalization and
4 ability to finance, including, but not limited to, rights to cause the IPO.

5 124. The Great Hill Partners Defendants had a financial interest in taking the
6 Company’s stock public in order to increase the holding value and marketability of
7 their investment. Defendant YogaWorks, the Great Hill Partners Defendants and the
8 Individual Defendants were each critical to effecting the IPO, based on their signing
9 or authorization of the signing of the Registration Statement, by voting (including
10 voting their shares) to execute the IPO and by having otherwise directed through their
11 authority the processes leading to execution of the IPO, including obtaining the
12 Underwriter Defendants, registration, qualification, authorization, pricing, offering to
13 the public and issuance and sale of the shares in the IPO.

14 125. By virtue of the conduct alleged herein, the defendants named in this
15 Cause of Action are liable for the aforesaid wrongful conduct and are liable to Lead
16 Plaintiff and the Class for damages suffered.

17 WHEREFORE, Plaintiff prays for relief and judgment, as follows:

18 A. Determining that this action is a proper class action and certifying Lead
19 Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil
20 Procedure and Lead Plaintiff’s counsel as Lead Counsel;

21 B. Awarding compensatory damages in favor of Lead Plaintiff and the other
22 Class members against all defendants, jointly and severally, for all damages sustained
23 as a result of defendants’ wrongdoing, in an amount to be proven at trial, including
24 interest thereon;

25 C. Awarding rescission or a rescissory measure of damages to the extent
26 permitted under the claims asserted herein;

27 D. Awarding Lead Plaintiff and the Class their reasonable costs and
28 expenses incurred in this action, including counsel fees and expert fees; and

1 E. Awarding such equitable/injunctive or other and further relief as the
2 Court may deem just and proper.

3 **JURY TRIAL DEMANDED**

4 Lead Plaintiff hereby demands a trial by jury.

5 DATED: May 21, 2019

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23 Attorneys for Plaintiff Craig Cohen

CERTIFICATE OF SERVICE

I hereby certify under penalty of perjury that on May 21, 2019, I authorized the electronic filing of the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses on the attached Electronic Mail Notice List, and I hereby certify that I caused the mailing of the foregoing via the United States Postal Service to the non-CM/ECF participants indicated on the attached Manual Notice List.

s/ James I. Jaconette
JAMES I. JACONETTE

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Electronic Mail Notice List

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Manual Notice List

The following is the list of attorneys who are **not** on the list to receive e-mail notices for this case (who therefore require manual noticing). You may wish to use your mouse to select and copy this list into your word processing program in order to create notices or labels for these recipients.

- (No manual recipients)